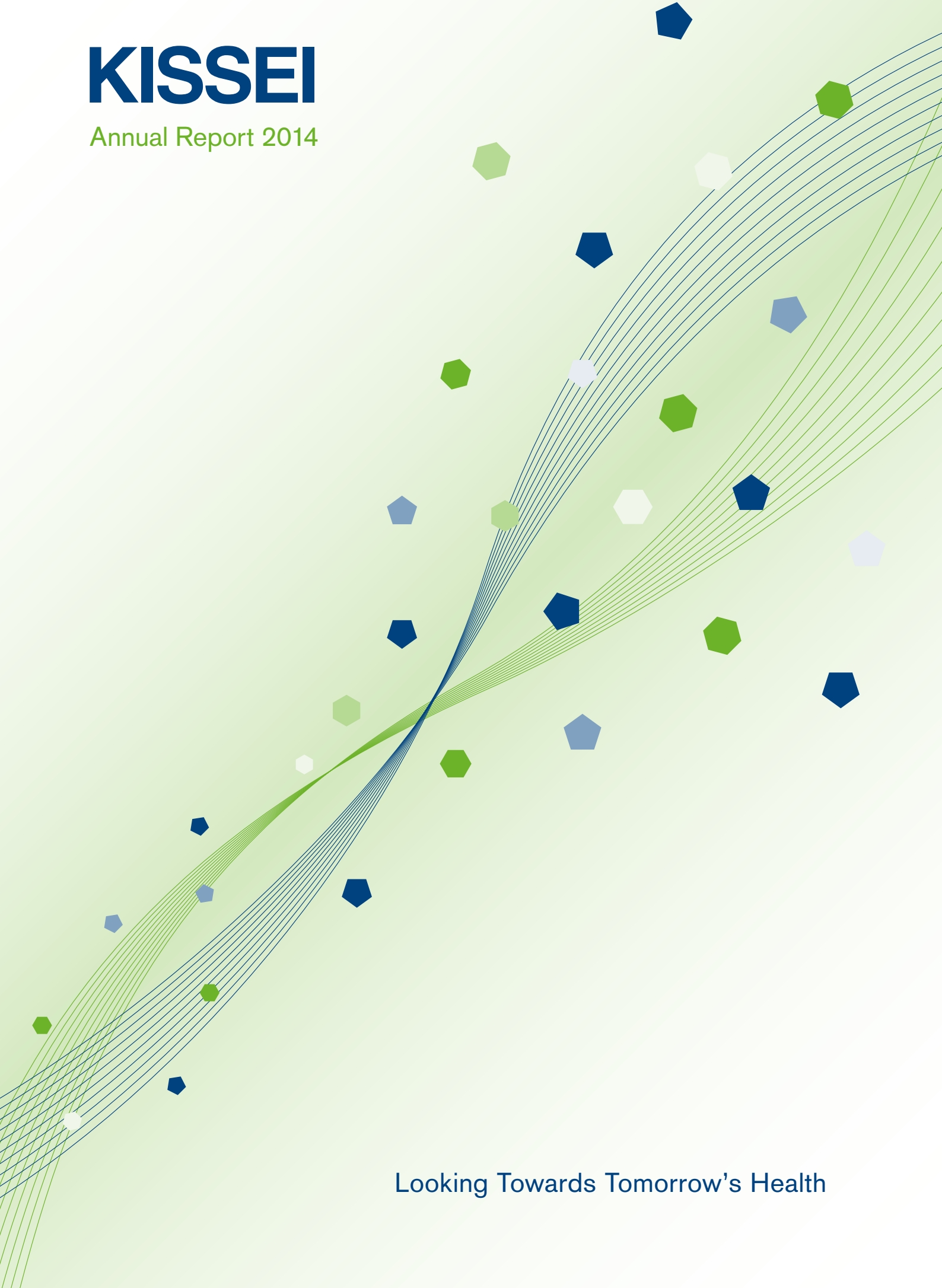
KISSEI

Annual Report 2014



Looking Towards Tomorrow's Health

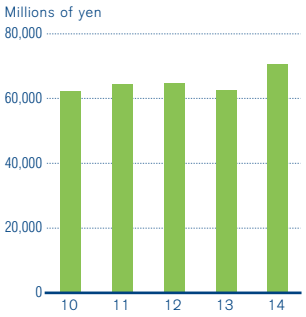
Financial Highlights

Kissei Pharmaceutical Co., Ltd. and its subsidiaries
Years ended March 31

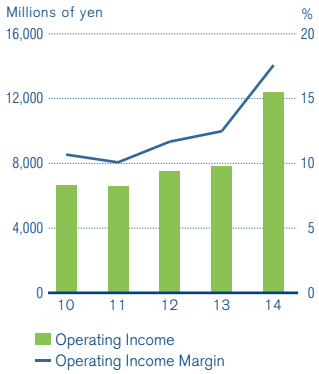
	Millions of yen, except per share data					Thousands of U.S. dollars, except per share data[1]
	2010	2011	2012	2013	**2014**	**2014**
For the Year:						
Net Sales	¥62,179	¥64,394	¥64,619	¥62,491	**¥70,399**	**$683,485**
R&D Expenses	10,786	12,037	10,043	10,312	**11,299**	**109,699**
Capital Investment	2,037	1,322	1,893	1,664	**2,382**	**23,126**
Operating Income	6,585	6,464	7,466	7,761	**12,301**	**119,427**
Net Income	4,371	4,004	4,770	5,020	**9,093**	**88,282**
At Year-End:						
Total Assets	¥147,022	¥146,249	¥144,385	¥160,028	**¥172,650**	**$1,676,214**
Total Net Assets	124,221	123,932	123,386	134,784	**142,821**	**1,386,612**
Per Share (Yen and U.S. Dollars):						
Net Income[2]:						
Primary	¥80.5	¥73.8	¥91.4	¥97.5	**¥176.67**	**$1.715**
Fully-Diluted	—	—	—	—	**—**	**—**
Cash Dividends	32.0	34.0	36.0	38.0	**40.0**	**0.388**
Key Ratios (%):						
Operating Income Margin	10.6	10.0	11.6	12.4	**17.5**	
Return on Assets (ROA)	3.0	2.7	3.3	3.1	**5.5**	
Return on Equity (ROE)	3.6	3.2	3.9	3.9	**6.6**	
Shareholders' Equity Ratio	84.4	84.6	85.3	84.1	**82.6**	
Number of Employees	1,920	1,911	1,893	1,894	**1,883**	

1: U.S. dollar amounts are translated at the rate of ¥103=U.S.$1, the approximate effective rate of exchange at March 31, 2014.
2: Net income per share is computed based on the weighted-average number of shares of common stock after subtracting the weighted-average number of shares of treasury stock for the year.

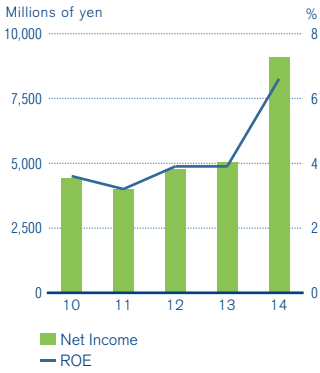
Net Sales



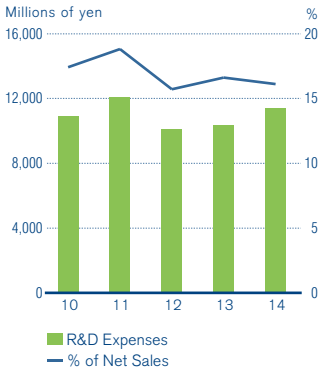
Operating Income / Operating Income Margin



Net Income / ROE



R&D Expenses



Contents

A Letter from the CEO

Mutsuo Kanzawa
Chairman and Chief Executive Officer

Guided by its management philosophy, the Kissei Group is aiming to make significant contributions to society. The Kissei Group promotes management policies that emphasize the importance of shareholders, employees, local communities, history and culture, and the environment. The management vision underpinning its core pharmaceutical business challenges Kissei Pharmaceutical Co., Ltd. (Kissei), to be an R&D-oriented pharmaceutical company that contributes to the health of people around the world through innovative drug products. To this end, Kissei is proactively pushing forward with patient-centered measures including the undertaking of R&D activities, the manufacture of high-quality pharmaceuticals, the collection and provision of drug information necessary for the optimum use of its products, the implementation of efficient operations, and the construction of a total marketing system. In addition, each Kissei Group company assists in our pharmaceutical business and leverages its technologies to help develop our operations both domestically and internationally.

In the pharmaceutical business, Kissei launched the new PROGRESS 3 medium-term management plan. Covering the three-year period from fiscal 2014 to fiscal 2016, this plan sets forth a concrete roadmap for realizing the management vision.

In Japan, social security expenses are growing in conjunction with the declining birthrate, aging population, and advancement of medicine. At the same time, there is a push to limit medical treatment costs through means such as encouraging the use of generic drugs. Overseas, there is a similar drive to reduce medical treatment costs centered on developed countries, and the hurdle for receiving approval for new drugs is being placed continually higher. Due to these conditions, the operating environment for the pharmaceutical industry remains harsh. In this environment, winning out on the global stage as an R&D-oriented pharmaceutical company while advancing new drug development will require us to more carefully monitor changing market conditions, and respond to changes quickly and flexibly. However, we are confident in Kissei's ability to keep growing by implementing the concrete growth strategies described in PROGRESS 3.

On June 27, 2014, the Company adopted a new, stronger management system to allow for more-flexible and more-capable management in response to the highly volatile operating environment. Under this new system, I will lead general management as the Chairman and Chief Executive Officer (CEO) while Masaki Morozumi will be placed in charge of overall business execution as the President and Chief Operating Officer (COO).

Kissei aims to always be a highly trusted company that lives up to the expectations of all its stakeholders, including patients, their families, and medical practitioners as well as its shareholders and employees and the local communities it serves. To accomplish this goal, we will advance untiringly on our quest to realize Kissei's management vision under this new management system.

I hope for the ongoing support of all our stakeholders as we advance into the future.

June 2014

Mutsuo Kanzawa
Chairman and Chief Executive Officer

Main Pharmaceutical Products
(Generic name in parentheses)
Urief® (silodosin): dysuria associated with benign prostatic hyperplasia (BPH)
Glufast® (mitiglinide): type 2 diabetes
Glubes® (mitiglinide/voglibose): type 2 diabetes
Salagen® (pilocarpine): dry mouth
Epoetin Alfa BS Injection [JCR] (epoetin kappa): renal anemia
Bezatol® (bezafibrate): hyperlipidemia
Utemerin® (ritodrine HCl): threatened abortion and premature labor
Xanbon® (ozagrel Na): acute cerebral thrombosis, etc.
Rizaben® Eye Drops (tranilast): allergic conjunctivitis
Rizaben® (tranilast): allergy, hypertrophic scar, etc.
Domenan® (ozagrel HCl): bronchial asthma

Main Nutritional Foods
Yumegohan: for patients with renal disease
New Throking-i: for seniors
Cup Agalorie: energy supplement

A Message from the CEO and COO

Mutsuo Kanzawa
Chairman and
Chief Executive Officer

Masaki Morozumi
President and
Chief Operating Officer

Review of Operations

Overview of Operations in the Year Under Review

In fiscal 2013, the year ended March 31, 2014, the Japanese economy saw a recovery trend driven by the yen deprecation and stock price increases that resulted from government-guided economic stimulus measures. Nevertheless, conditions remained opaque as uncertainty lingered in the European economy, despite its breakaway from recession during the second half of the fiscal year, and there was concern for deceleration in principal emerging economies.

In the pharmaceutical industry, business conditions remained tough due to the intensification of competition and the Japanese government's continued policy of encouraging the use of generic drugs as a way of reducing medical treatment costs. Demand for IT investment and capital investment gradually recovered among companies in the information services, merchandising, and construction industries. However, the demand rush that preceded the recent consumption tax hike gives doubt as to whether or not consumption levels will continue, and competition remained fierce in these industries as a result.

Amid these conditions, our business results for fiscal 2013 were as seen in the following table.

Consolidated Performance

	Millions of yen		%
	Results for year ended March 2013	Results for year ended March 2014	Change
Net Sales	¥62,491	¥70,399	12.7
Operating Income	7,761	12,301	58.5
Net Income	5,020	9,093	81.1

In the pharmaceutical business, net sales increased 12.6% year on year, to ¥61,090 million. We concentrated efforts on cultivating such new products as Urief®, a treatment for dysuria associated with benign prostatic hyperplasia (BPH); Epoetin Alfa BS injection [JCR], a treatment for renal anemia; and the Glubes® Combination Tablet, an improving agent for postprandial hyperglycemia. At the same time, we actively provided medical specialists with information on our existing products. Increases in earnings came in the forms of higher technical fee revenues such as licensing fees from out-licensing of development themes and increased revenues from a rise in supply volumes to domestic sales partners. In September 2013, Glufast®, an improving agent for postprandial hyperglycemia, received approval for partial changes of its indication. The newly approved indication is for type 2 diabetes, and we are actively providing medical specialists with information about this new indication. Further, measures to cultivate and prepare for sales of silodosin (brand name in Japan: Urief®), a treatment for dysuria associated with benign prostatic hyperplasia (BPH), were advanced by licensed companies in the regions for which they are licensed. In North America and Latin America, these tasks were handled by licensee Actavis plc, of the United States, whereas Italy-based licensee Recordati S.p.A advanced these measures in Europe, the Middle East, and Africa. This product is also being nurtured by other licensees.

In other businesses, net sales were up 12.7% year on year, to ¥9,309 million, due to higher revenues from information services, merchandising, and construction projects.

As for income, operating income and net income were up. While selling, general and administrative expenses increased, primarily due to higher R&D expenses, this rise in expenses was offset by higher revenues and decreased losses on revaluation of investment securities.

In R&D, we conducted follow-up activities regarding the application for approval of a partial revision to the indications of Glufast® to include an indication for type 2 diabetes, which was submitted in December 2012. As mentioned previously, this approval was received September 2013. Also in September, we concluded a collaborative research and development agreement with JCR Pharmaceuticals Co., Ltd., for a biosimilar to a long-acting erythropoiesis stimulating agent, "darbepoetin alfa" (generic name). Preparations are currently underway for clinical

research to be advanced based on this agreement. As a new initiative in the biopharmaceutical business, in February 2014, we concluded an agreement with Korean bio-field venture company Alteogen Inc. to start collaborative research for biosimilars. On January 17, 2014, new drug application approval was received for dexrazoxane (generic name; development code: KDX-0811), an agent for the treatment of anthracycline extravasation. After its listing in drug price standards, we advanced preparations to sell the agent under the name "SAVENE® Injectable 500mg," and successfully commenced sales on April 17, 2014. This agent was considered to be a drug that had high medical needs and was publicly offered to a development company at the Review Conference on Unapproved or Off-label Use Drugs of High Therapeutic Needs set up by the Ministry of Health, Labour and Welfare. Furthermore, we commenced with clinical trials for the KEA-0447 (development code) treatment for overactive bladder through joint development with KYORIN Pharmaceutical Co., Ltd. Also, Kissei submitted an "application with public knowledge" in May 2014 for respiratory stimulant DOPRAM® Injectable 400mg (generic name: doxapram hydrochloride hydrate, Japanese Pharmacopoeia) for the additional indication of an apneic attack of prematurity. Later, in June 2014, the Company submitted an application to receive approval to market Urief® in a new dosage form (oral disintegration tablet).
In these manners, we continued to focus on advancing respective themes forward into their next development stage. In addition, in December 2013, we concluded an agreement with U.S. company Pfizer Inc. granting this company exclusive rights to develop and commercialize our KUX-1151 (development code) therapy for gout and hyperuricemia in all countries but Japan.

Outlook for the Current Fiscal Year

In Japan's pharmaceutical market, business conditions will likely remain tough due to impacts of the April 2014 NHI price revision and the Japanese government's strong support for policies for reducing medical treatment costs such as encouraging the use of generic drugs.

Other businesses are also likely to continue facing challenging conditions in their industries with stagnant domestic demand, despite a sense of ensuing economic recovery.

In response to these conditions, the Kissei Group is focused on strengthening its management base by creating synergies among the companies in the group, reaping the benefits of investments in R&D, and improving profitability.

Our consolidated performance forecast for fiscal 2014, the year ending March 2015, is as follows.

Consolidated Performance Forecast

	Millions of yen		%
	Forecast for year ending March 2015	Results for year ended March 2014	Difference
Net Sales	¥67,200	¥70,399	(4.5)
Operating Income	7,800	12,301	(36.6)
Net Income	6,100	9,093	(32.9)

Net Sales

In the pharmaceutical business, we will continue cultivating Urief®, Glubes® Combination Tablet, and Epoetin Alfa BS Injection [JCR]. However, we are expecting lower revenues due to the impacts of the NHI price revision instituted in April 2014 and the decline in technical fee revenues, which showed a substantial increase in fiscal 2013 due to licensing fees received with regard to development theme KUX-1151. As regards to other businesses, we expect that uncertain business conditions will lead to lower revenues.

Income

In the pharmaceutical business, we anticipate declines in operating income and net income following decreased revenues and continued investment in R&D and product cultivation. Other businesses are likely to record declines in earnings due to lower revenues. Further, we do not anticipate any noteworthy other income or expenses.

Management Strategy

The operating environment for pharmaceutical companies is in a period of intense change. In Europe, the United States, and Japan, medical systems are undergoing various revisions to realize more-appropriate levels of medical treatment costs. Also, the pharmaceutical market is transforming on a global scale due to the growing medical needs in emerging countries among other factors. At the same time, medical needs themselves are growing more complex and diverse as patients seek treatments for rare medical conditions and the general populous comes to desire a higher quality of life. It is becoming increasingly more difficult to realize productivity in drug development ventures as potential new themes become scarcer and development costs rise. This situation is compounded by intensified competition with other pharmaceutical companies.

It was in this harsh environment that Kissei launched its new PROGRESS 3 medium-term management plan, which covers the three-year period from fiscal 2014 to fiscal 2016. This plan targets the maximization of sales and income to fuel ongoing growth, and calls on us to create a product portfolio that gives greater meaning and value to the Company's existence, and thereby strengthen its earnings structures.

In addition, we intend to develop corporate governance systems and manage our business based on exemplary corporate social responsibility in order to maximize corporate value and remain a company that stakeholders trust.

As we take on these challenges, we would like to ask for the continued understanding and support of our stakeholders.

June 2014

Mutsuo Kanzawa
Chairman and Chief Executive Officer

Masaki Morozumi
President and Chief Operating Officer

New Medium-Term Management Plan

In April 2014, Kissei started its PROGRESS 3 medium-term management plan. By advancing the following basic policies of PROGRESS 3, we will work to strengthen Kissei's earnings structures as an R&D-oriented pharmaceutical company and build growth foundations for the future.

1. Enhance our product portfolio and efficiently advance clinical trials for development themes to quickly achieve approval
2. Launch promising new products overseas and set targets for development, overseas expansion, and sales to maximize sales in order to secure funds for R&D expenditures and strengthen earnings structures
3. Develop efficient production systems, explore new markets, and transform our business model
4. Secure profits in healthcare businesses and provide a stable supply of high-quality pharmaceuticals
5. Strengthen management bases of Group companies to facilitate utilization of comprehensive capabilities through effective Group management
6. Establish and promote forward-thinking organizations and human resource strategies, invigorate employee base and organization, and improve productivity

Major Domestic Pharmaceuticals

Dysuria treatment: Urief® Tablet

Urief® is a selective alpha 1A-adrenoceptor-blocker developed by Kissei for the treatment of dysuria associated with benign prostatic hyperplasia. By blocking alpha 1A-adrenoceptors in the prostate gland it removes the tension of the prostate gland to improve urethral resistance. It has been co-marketed with Daiichi Sankyo Co., Ltd., since sales began in May 2006. Development is currently advancing to make Urief® available in the form of an orally disintegrating tablet.

Diabetes treatment: Glufast® Tablet

Glufast® is a rapid-acting insulin secretagogue developed by Kissei that has been co-marketed with Takeda Pharmaceutical Co., Ltd., since May 2004. In September 2013, a partial revision to the indication for this agent was approved. It is now approved for treatment of type 2 diabetes, and can be used in conjunction with all oral hypoglycemic agents expect sulfonylurea derivatives.

Glubes® Combination Tablet

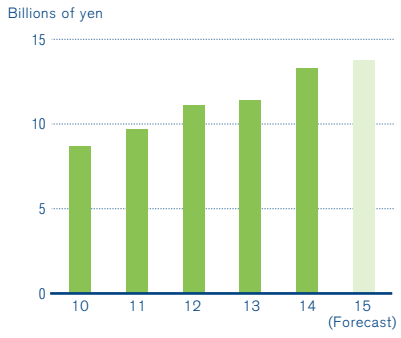
The Glubes Combination Tablet, a combination of Glufast® and voglibose (generic name), was first sold in July 2011 by Kissei, acting independently. The tablet has been highly praised as an ideal combination, providing aggressive treatment of postprandial glucose increases as well as being easy to administer and reducing the economic burden on patients.

Renal anemia treatment: Epoetin Alfa BS Injection [JCR]

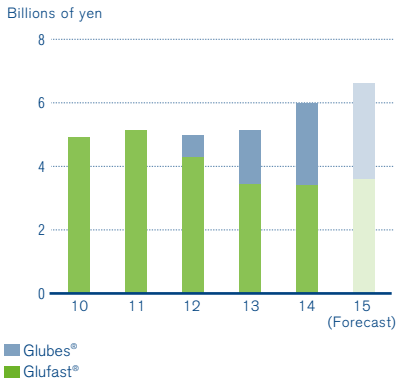
Epoetin Alfa BS Injection [JCR] is a biosimilar recombinant human erythropoietin developed together with JCR Pharmaceuticals Co., Ltd. It has been co-marketed since May 2010.

Years ended March 31

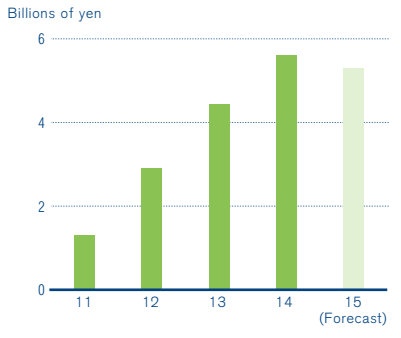
Urief® Sales



Glufast® and Glubes® Sales



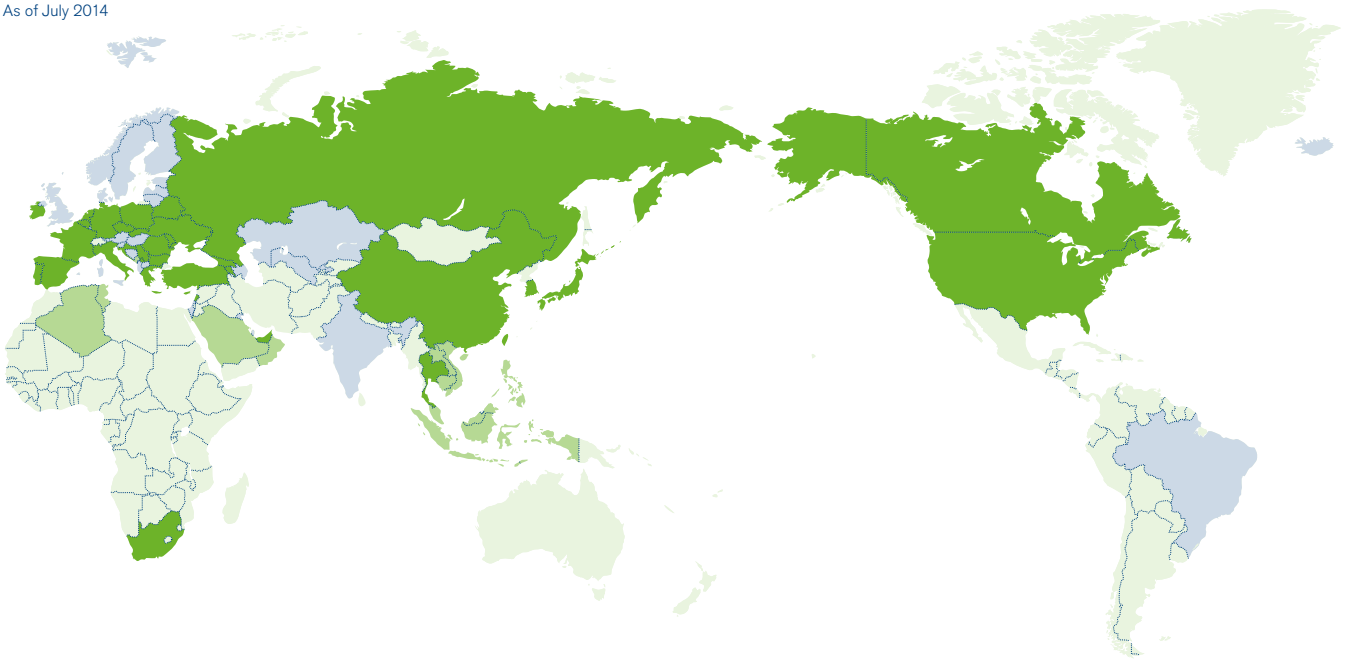
Epoetin Alfa BS Injection [JCR] Sales



Overseas Development

The Overseas Development of Silodosin

As of July 2014

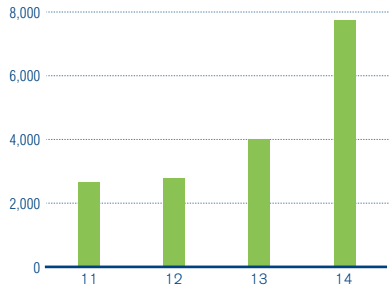


- Launched: Japan, the U.S., Canada, South Korea, Taiwan, China, Macau, Thailand, Lebanon, UAE, Germany, Ireland, Spain, France, Portugal, Belgium, Romania, Italy, Greece, the Netherlands, Russia, Czech Republic, Slovakia, Bulgaria, Cyprus, Turkey, Poland, the Ukraine, Georgia, Belarus, Croatia, Armenia, Serbia, Moldova and South Africa
- Approval acquired but not yet launched: 12 of the 28 EU member countries (already launched in the other 16) and 15 other countries: Brazil, India, Israel, Kuwait, Qatar, Liechtenstein, Norway, Iceland, Albania, Bosnia and Herzegovina, Kosovo, Macedonia, Uzbekistan, Kazakhstan and Azerbaijan
- Filed an NDA but not yet approved: Hong Kong, Indonesia, Malaysia, Philippines, Tunisia, Algeria, Bahrain, Montenegro, Oman, Saudi Arabia, Laos, Vietnam and Cambodia

Years ended March 31

Past Exports

Millions of yen



* "Exports" is the total for overseas sales and revenue from dispensing fees (based on financial results)

Silodosin, a treatment for dysuria, has earned a strong reputation around the world for its superior ability to relieve symptoms shortly after application. This drug was launched in the United States in April 2009 by licensing partner Actavis, Inc. (formerly Watson Pharmaceuticals, Inc.), under the brand name Rapaflo®. To date this company has received additional licensing rights to sell the drug in 19 countries throughout the Americas. Further, the drug was introduced into Germany in June 2010 under the brand name UROREC® by licensing partner Recordati, of Italy. Recordati has received additional licensing rights to sell the drug in 84 countries in regions such as Europe, the Middle East, Africa, and Oceania. In April 2013, licensing partner Daiichi Sankyo Co., Ltd. (Japan), began selling the drug in China through a local subsidiary under the name Youlifu®.

Silodosin sales are rising as the number of countries it is sold in slowly increases, primarily in Europe. Silodosin has now been launched in 35 countries, including Japan, and is thus contributing to improving the quality of life of patients around the world.

Overseas Licensing of New KUX-1151 Therapy for Gout and Hyperuricemia

In December 2013, Kissei concluded an agreement with Pfizer Inc. granting it exclusive rights to develop and commercialize the Company's KUX-1151 therapy for gout and hyperuricemia in all countries but Japan. KUX-1151 is anticipated to provide a new approach toward treating gout and hyperuricemia by reducing serum uric acid levels through the inhibition of both xanthine oxidase, which regulates uric acid production, and uric acid transporter (URAT1), which is responsible for the reabsorption of uric acid. As of August 2014, Kissei was conducting a Phase II clinical trial for this drug in Japan while Pfizer was conducting a Phase I trial overseas.

Research and Development

Kissei's management vision is to be an R&D-oriented pharmaceutical company that contributes to the health of people around the world through innovative drug products. In order to realize this vision, the Kissei Group is identifying R&D core areas in its core pharmaceutical business, investing in them actively, and thereby accelerating drug discovery and development. Also, aiming to enter new markets and increase our presence in existing markets worldwide, we are advancing international rollouts by licensing proprietary Kissei products.

For an overview of R&D initiatives in the pharmaceutical business in the fiscal year under review, please see "Review of Operations" in "A Message from the CEO and COO" on pages 2 and 3 of this report.

In other businesses, we are creating platforms from which we can expand operations by actively investing in a range of areas, such as research on the latest IT for software development.

R&D expenses in the fiscal year under review totaled ¥11,299 million, or 16.0% of net sales.

Pharmaceutical Business

We have reinforced our product portfolio by stepping up R&D and in-licensing activities in R&D fields such as biologics and other new areas of participation as well as marketing. Total R&D expenses in this business sector for the fiscal year under review were ¥11,166 million.

Other Businesses

Aiming to develop business globally, we have established a development system for medical software and other package software, and are advancing initiatives to develop next-generation technologies. Total R&D expenses in this business sector for the fiscal year under review were ¥132 million.

R&D Pipeline (In-House)
As of August 2014

Development Stage	Product Name / Generic Name / Development Code	Development Classification	Therapeutic Target
NDA	Salagen®/ Pilocarpine	Kissei	Dry mouth - Additional dosage form: granule form -
	Dopram® / Doxapram	Kissei (Application with Public Knowledge)	An apneic attack of prematurity - Additional indication -
	Urief®/Silodosin	Kissei / Co-development with Daiichi Sankyo (Japan)	Dysuria associated with benign prostatic hyperplasia - Alpha 1A antagonist - - Additional dosage form: oral disintegration tablet -
Phase III	PA21	In-licensed / Vifor-Fresenius Medical Care Renal Pharma (Switzerland)	Hyperphosphatemia in hemodialysis patients - Phosphate binder -
	KPS-0373	In-licensed / Shionogi (Japan)	Spinocerebellar ataxia - Product mimetic of TRH action -
Phase II	Ozagrel / KCT-0809	Kissei / Co-development with Teika (Japan)	Dry eye - Restoration of corneal and conjunctival epithelium -
	KLH-2109	Kissei	Endometriosis / uterine fibroids - GnRH antagonist -
	KWA-0711	Kissei	Chronic constipation - Inhibitor of water absorption in the gastrointestinal tract -
	KUX-1151	Kissei	Gout and hyperuricemia - Decrease formation of uric acid - - Uricosuric effect -
Phase I / II	YS110	In-licensed / Y's AC, University of Tokyo, JST (Japan)	Malignant mesothelioma - Humanized anti-CD26 monoclonal antibody -
Phase I	KEA-0477	Kissei / Co-development with Kyorin (Japan)	Overactive bladder - Selective prostaglandin EP1 receptor antagonist -

R&D Pipeline (Out-Licensing)
As of August 2014

Development Stage	Generic Name / Development Code	Development Company	Territory	Therapeutic Target
NDA	Mitiglinide	Eisai (Japan)	ASEAN [1]	Type 2 diabetes mellitus
	Silodosin	Eisai (Japan)	ASEAN, India, Sri Lanka [2]	Dysuria associated with benign prostatic hyperplasia
Phase II	Bedoradrine	MediciNova (U.S.)	Worldwide, except for Japan	Acute exacerbation of asthma / Preterm labor
Phase I	Bedoradrine	MediciNova (U.S.)	Worldwide, except for Japan	COPD
	KUX-1151	Pfizer (U.S.)	Worldwide, except for Japan	Gout and Hyperuricemia

1: Launched in Thailand, approved in the Philippines, Myanmar and NDA in 3 countries
2: Launched in Thailand, approved in India, NDA in 6 ASEAN countries

Corporate Governance

Our Basic Approach to Corporate Governance

One of the core management challenges of Kissei is to strengthen its system of corporate governance in order to raise corporate value and ensure consistent growth as a company with a clear raison d'etre.

Bodies and Internal Control System

Overview of Bodies

Kissei's Board of Directors sets basic strategies for Kissei and makes decisions on all important matters while also providing oversight of business execution. In principle, the Board of Directors convenes once a month to engage in active debate over operations, with priority on making prompt business decisions and increasing the transparency of operations.

In June 2014, the Company introduced a new management under which the chief executive officer (CEO) is given authority over all matters pertaining to management and the chief operating officer (COO) is responsible for matters related to business execution. This new system entails the delegation of certain business execution responsibilities from the Board of Directors and was instituted with the aim of strengthening management systems and allowing for management to be conducted more flexibly. In addition, the CEO is responsible for convening meetings of the Managing Committee, which consists of managing directors and directors of higher ranks and is responsible for discussing and approving items from a predetermined agenda.

The Company has adopted a corporate auditor system. This system was deemed rational as the corporate auditors together with the appointed external directors effectively facilitate improvements in the functionality of the Board of Directors while strengthening management oversight functions. The Company has two in-house and two external auditors. Corporate auditors attend meetings of the Board of Directors and actively state opinions. One external auditor is a licensed attorney, while the other is a certified public accountant. Consequently, they are able to conduct audits from a specialist perspective.

Internal Control System and Risk Management Structure

Kissei operates under the management philosophy of "contributing to society through high-quality, innovative pharmaceutical products" and "serving society through our employees." The Kissei Code of Conduct guides employee conduct, with the aim of upholding high ethical standards in R&D, manufacturing, and sales activities, all of which are fundamental to our business as a company involved in life sciences. In addition, Kissei has established the Compliance Committee to provide advice to the Board of Directors to help ensure that all laws and regulations are followed both in letter and spirit. The Compliance Program is conducted on a regular basis, and as part of this program the Kissei Pharmaceutical's Compliance Program Manual is continually updated with employees receiving regular instruction on compliance-related issues. In May 2006, Kissei also created the Basic Policy on Internal Controls in which every employee is trained. Based on this basic policy, in addition to maintaining all company rules, the Risk Management Committee—which is an advisory body to the Board of Directors—was established, and risk management and other internal systems are consequently promoted.

Internal Audits

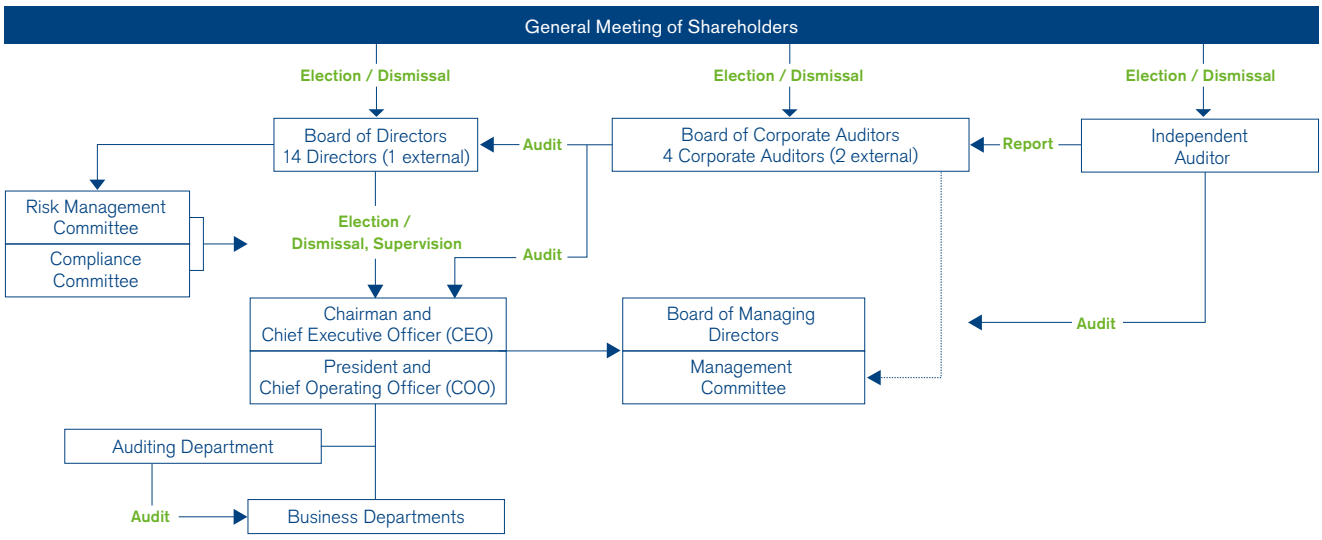
Kissei has established the Auditing Department, an independent body that reports directly to the COO. This five-member body conducts internal audits for each department and all internal systems in Kissei based on the yearly auditing plan, ensuring that all departments carry out business activities in an appropriate manner.

The Board of Corporate Auditors and the Auditing Department discuss the auditing systems and auditing plan at the beginning of each fiscal period. In addition, they meet each month to exchange opinions on the status of the audits being implemented.

Independent Auditor

Kissei regularly undergoes outside auditing by an independent auditor. The independent auditor engages in discussions with members of the Board of Directors, finance officers, and the Board of Corporate Auditors, which aids

Diagram of Corporate Governance Bodies and Internal Control System



the strengthening and maintenance of the corporate governance structure. The two certified public accountants that execute the audit of Kissei are partners of Ernst & Young ShinNihon LLC. Also, eleven certified public accountants engage in assisting the audit and a further six employees carry out audit-related duties.

External Directors and Corporate Auditors

There are no special relationships between the one external director and the two external corporate auditors and the Company that could cause a conflict of interests.

The external director and corporate auditors are expected to participate in management from an objective and neutral standpoint, thereby helping improve the transparency of management.

Reasons for Appointment of External Directors

The one external director was selected for their wealth of experience and specialized expertise as a corporate officer. From a perspective that is independent from business execution, it is anticipated that this external director will provide valuable insight and advice when the Board of Directors is making improved decisions on the appropriate management direction and other important matters.

Reasons for Appointment of External Corporate Auditors

One external corporate auditor has experience as the chairman of an auditing firm and is also versed in finance and accounting due to their experience as a certified public accountant and tax account. For this reason, it was judged that this individual possessed substantial insight into corporate management, and they were thus selected with the anticipation that they would conduct audits rooted in their insight and years of experience in the fields of finance and accounting. The other external corporate auditor possesses substantial insight into corporate management from their experience as a licensed attorney practicing in the field of corporate law. They were thus selected with the anticipation that they would conduct audits rooted in their legal insight and experience.

Kissei Basic Policy on Internal Controls (Summary)

A meeting of the Board of Directors held in May 2006 approved a resolution to create the Basic Policy on Internal Controls. The details are as follows.

In the Basic Policy to Maintain Internal Control Systems, Kissei declares its intent to utilize the collective power of all its corporate officers and employees in order to continually improve corporate value and to fulfill its corporate social responsibilities, which are founded on its management philosophy. Based on article 362, paragraph 5 of the Companies Act, this basic policy defines policies for all activities to establish and maintain Kissei's internal control systems.

1. Systems to ensure that directors and employees comply with laws and regulations as well as Kissei's articles of incorporation when executing their duties
   - In accordance with the Kissei Code of Conduct, a precondition of all company activities shall be absolute compliance with corporate ethics as well as laws and regulations.
   - The Board of Directors shall appoint a director responsible for compliance, and in addition to having overall responsibility for the Compliance Promotion Department, shall establish the Compliance Committee to act as an advisory body to the Board of Directors.

2. Systems for the storage and management of information relating to the directors' execution of duties
   - The Board of Directors shall establish and maintain systems to appropriately store and manage information relating to the execution of duties by directors and departmental officers.
   - The director responsible for legal affairs shall establish regulations relating to document management and storage and maintain them, together with related materials and other information, in an appropriate storage medium with search functionality.

3. Systems for regulations pertaining to risk management and related systems
   - The Board of Directors shall define the risk management and other necessary internal regulations and establish and maintain systems to fully ascertain and manage risks relating to the execution of duties.

4. Systems to ensure directors execute their duties efficiently
   - Kissei shall establish and maintain systems to increase the efficiency with which directors execute their duties, construct internal organizations aiming to achieve cooperation and control, clearly allocate duties based on internal regulations, establish limits on authority and decision-making rules, and ensure duties are executed appropriately and efficiently.

5. Systems to ensure the appropriate execution of duties within the corporate group
   - As prescribed by the Kissei Group Code of Conduct, Group companies will aim to foster an awareness among all their directors and employees of the importance of legal compliance.
   - The Board of Directors shall establish and maintain administrative rules for affiliates, and for predetermined items shall require a request for approval and notification to the Affiliates Management Department prior to resolution by the Board of Directors, and when necessary each Kissei Group company shall acquire prior approval for a resolution from Kissei's Board of Directors.

6. Items for systems relating to Kissei employees who assist the corporate auditors and the independence of these employees
   - If a corporate auditor requests that a Kissei employee assists them in carrying out their duties, then, following discussions with other corporate auditors, the employee shall be deployed to the Auditing Department as an assistant to the corporate auditors.

7. Systems to ensure reporting to the corporate auditors and the Board of Corporate Auditors by directors and employees, and other systems to enable the corporate auditors to carry out their duties effectively
   - Each responsible director or departmental officer shall report those items to the corporate auditors that were decided must be reported following discussions between the corporate auditors and the Board of Directors.

Corporate Social Responsibility

CSR

Kissei's management philosophy is "contributing to society through high-quality, innovative pharmaceutical products" and "serving society through our employees." This philosophy has served as the starting point for our CSR-centered management since Kissei was founded. In addition to maintaining systems to promote CSR throughout the Kissei Group, we are further broadening the scope of our CSR initiatives.

Compliance Initiatives

All our employees are expected to act in accordance with societal and corporate ethics. Kissei believes this action enhances the brand power and image of our products and improves both our corporate value and the trust our stakeholders hold in us.

Kissei has formulated the Kissei Code of Conduct and published the Kissei Pharmaceutical's Compliance Program Manual as specific guidelines that expand on the basic principles for employee behavior developed from the perspective of promoting CSR as a responsible corporate citizen. The Kissei Pharmaceutical's Compliance Program Manual is distributed to Kissei Group companies to provide practical guidance on compliance matters.

Furthermore, we have expanded the range of our existing Promotion Code, which was limited to promotion activities, into self-regulation in the form of the Kissei Code of Practice implemented in April 2013, which covers all aspects of a wide range of our activities in relation to researchers, health professionals, patient groups, and others.

Kissei also carries out compliance training for all employees and has established a helpline as an additional contact and consultation system for compliance issues, such as compliance violations, sexual harassment, and misuses of power.

Our Central Research Laboratories conduct animal testing as a certified organization after having undergone inspections by third-party organization Japan Health Sciences Foundation. Third-party certification was also recently received in relation to the basic policies issued by the Ministry of Health, Labour and Welfare with regard to institutions conducting animal testing under its jurisdiction. This signifies that the Company raises test animals and conducts animal testing in an appropriate manner.

Consideration for Society

We place great importance on our relationships with local communities and society at large. We have continued to actively participate in and contribute to the lives of the people in our local communities through involvement in cultural, health, welfare, environmental, and sports activities, as well as in the field of medical treatment.

One example of Kissei's social contribution activities is the Saito Kinen Festival, a global music festival held each fall in Matsumoto City, Nagano Prefecture, which we have sponsored since the year it began. We have also acquired the naming rights for the hall in Matsumoto where the festival is held, giving it the name "Kissei Cultural Hall." As for initiatives in the medical field, we have established the Kanzawa Medical Research Foundation and sponsor multifaceted research into the causes, prevention, diagnosis, and treatment of a range of conditions affecting women of reproductive age, particularly in the perinatal period, as well as conditions affecting middle-aged and elderly women. Our goal is to develop both new medical treatments and the medical profession itself. Furthermore, as a first step in providing high-quality medical care for local communities, Kissei holds sponsored courses on serious nerve diseases at the Shinshu University School of Medicine and holds drug discovery courses in collaboration with the university. Kissei also contributes to the development of the field of medicine and local communities through other ongoing, pertinent donations.

Consideration for Customers

We established the Product Customer Service Center to respond to inquiries from doctors, pharmacists, and other health care professionals, as well as from patients and their families.

Consideration for Employees

Our fundamental philosophy toward our employees is based on our vision of "mutually respecting an individual's philosophy and sense of values, and providing a stimulating working environment to help build a dynamic and creative company."

We strive to maintain an ideal workplace through appropriate workplace systems. The work systems we have introduced, for example, enable employees to choose a way of working best suited to the individual's capabilities and life plan. In many divisions and departments, we have introduced various flexible work hour systems like a deemed working hour system and flextime. Our goal is to create a working environment that allows all our employees to fully utilize their abilities.

Kissei is recognized for its efforts to develop an employment environment that is conducive to employees striving to balance their home life with their work life, such as those raising children, and was awarded certification as a standards-compliant general business owner in accordance with the Next Generation Education and Support Promotion Act.

Consideration for the Environment

Our basic environment policy is based on the following fundamental Company goal: As a drug discovery and R&D-oriented company that aims to ensure the future health of people around the world, we will actively work to preserve the environment as part of our corporate social responsibilities and contribute to realizing an affluent and comfortable society. Based on this basic environment policy, we strive to minimize the adverse impact of all our activities on the environment and to contribute to environmental protection.

In accordance with this policy, we are working to reduce energy usage and CO_2 emissions throughout the organization. In fiscal 2013, however, energy usage (crude oil equivalent) increased 1.5% year on year. In addition, CO_2 emissions were up 2.6% year on year in conjunction with the rise in CO_2 emissions coefficients of power companies. Further, with the aim of preventing global warming and reducing energy usage, Kissei encourages its employees to practice "Cool Biz," dressing cooler in the summer to alleviate the need for air conditioning, during the six-month period from May to October and "Warm Biz," likewise dressing warmer in the winter to reduce heater usage, during the five-month period from November to March.

Moreover, Kissei's environmental management promotes ISO 14001-compliant environmental management systems as a basic policy, and we have received ISO 14001 accreditation for environment management systems at all our facilities. Each facility has a designated person responsible for environmental management, to promote environmental protection activities.

Financial Review

Financial Position

At the end of the fiscal year under review, ended March 31, 2014, total assets stood at ¥172,650 million, up ¥12,622 million from the previous fiscal year-end. Total current assets increased ¥8,632 million, to ¥100,895 million, due to increases in cash on hand and in banks and inventories, which offset a decline in notes and accounts receivable. Total non-current assets increased ¥3,989 million, to ¥71,755 million, following an increase in buildings and structures as well as rises in investments in securities due to higher market values.

Total liabilities amounted to ¥29,829 million at fiscal year-end, up ¥4,585 million from the previous fiscal year-end. Total current liabilities stood at ¥17,880 million, up ¥2,303 million, due to increases in income taxes payable and notes and accounts payable. Total long-term liabilities were up ¥2,282 million, to ¥11,949 million, principally due to the recording of net defined benefit liability and an increase in deferred tax liabilities.

Total net assets amounted to ¥142,821 million at fiscal year-end, increasing ¥8,037 million from the previous fiscal year-end. This was primarily due to higher retained earnings and unrealized holding gains on securities.

As a result, the shareholders' equity ratio was 82.6%, down from 84.1% at the previous fiscal year-end.

Financial Results

Net sales increased 12.7% year on year, to ¥70,399 million. Accounting for the majority of net sales, the segment sales of the Kissei Group's core pharmaceutical business were up 12.6%, or ¥6,858 million, to ¥61,090 million. In this segment, sales of Rizaben® Eye Drops decreased, but sales revenues from Urief®, Epoetin Alfa BS Injection [JCR], and Glubes® Combination Tablet were up, as were exports of drug substances. There was also a significant increase in licensing fee royalties. In other businesses, segment sales were up 12.7%, or ¥1,050 million, to ¥9,309 million. This increase can be largely attributed to higher revenues from merchandising, information services, and construction projects.

In the pharmaceutical business, cost of sales as a percentage of net sales was down 1.2 percentage points due to a substantial rise in licensing fee royalties and the fact that this ratio showed no significant changes for individual products. In other businesses, this ratio was up 1.1 percentage points following a higher percentage of sales from construction projects. As a result, gross profit was up 14.2% year on year, or ¥5,870 million, to ¥47,218 million.

In selling, general and administrative expenses, R&D expenses increased due to higher development costs, and selling expenses and general and administrative expenses were also up. Regardless of this increase, operating income rose 58.5% year on year, or ¥4,540 million, to ¥12,301 million.

In other income (expenses), there was an increase in interest and dividend income and loss on devaluation of investments in securities mainly in the pharmaceutical business decreased. As a result, the net of other income and expenses made for other income of ¥1,100 million, up ¥868 million.

Due to the above, income before income taxes and minority interests was up 67.7% year on year, or ¥5,408 million, to ¥13,401 million, and net income increased 81.1%, or ¥4,073 million, to ¥9,093 million.

Basic Policy on the Distribution of Profits / Dividends for the Fiscal Year under Review and the Current Fiscal Year

Kissei aims to secure a solid management base while providing stable, consistent returns to shareholders through cash dividends. Kissei considers working to make efficient use of capital while paying fair dividends to shareholders in accordance with profit levels to be a key management issue.

Kissei's basic dividend policy is to make twice-yearly dividend payments, comprised of interim and year-end cash dividends. The Board of Directors decides the amount of interim dividends, while the General Meeting of Shareholders decides the amount of year-end dividends. Also, Kissei's articles of incorporation stipulate that a resolution of the Board of Directors enables the payment of interim dividends with record dates of September 30 each year.

Giving first priority to increasing shareholder value, Kissei will acquire and dispose of treasury stock, based on resolutions of the Board of Directors, flexibly and as necessary in light of operational developments.

Internal funds are maintained to respond to expected changes in government policy, system reforms, and the challenges of increasing globalization. At the same time, Kissei will actively invest in R&D to develop drugs that patients need. Kissei believes this policy will not only contribute to future profits but also enable Kissei to distribute profits to its shareholders appropriately.

For the fiscal year under review, Kissei paid a year-end cash dividend of ¥20.0 per share, which when combined with an interim cash dividend of ¥20.0 per share gave a full-year cash dividend of ¥40.0 per share.

For the current fiscal year, ending March 31, 2015, the Group plans to pay an interim cash dividend of ¥21.0 per share and a year-end cash dividend of ¥21.0 per share, giving a full-year cash dividend of ¥42.0 per share.

Risk Factors

The following risk factors could potentially affect the Kissei Group's operating results and financial position. Forward-looking statements are based on the judgments the Kissei Group has made from consolidated financial statements for the end of the fiscal year under review.

1. R&D

The process of developing pharmaceuticals—from the R&D stage to approval and sales—requires large investments of both time and funds. When developing new drugs, the chances of discovering beneficial indications are limited. In addition, Kissei can guarantee neither that a new drug undergoing development or an additional indication will have its intended benefit nor predict when or if the drugs will be approved.

2. Government Policy

The prices of pharmaceuticals in Japan are set based on the government's NHI drug price. Generally, the prices are revised biennially. There may be revisions or other changes to the medical insurance system in Japan that go beyond Kissei's forecast, such as the introduction of diagnosis procedure combinations or the promotion of generic drugs, which would negatively impact Kissei's operating results and financial position.

3. Competition with Other Companies' Products

The Kissei Group faces competition from companies selling products with the same application as its own. In addition, once a patent expires, price competition with generic products of the same composition intensifies. This competition could have a serious impact on the sales of existing drugs.

4. Unexpected Side-Effect Risks

There is a risk that a pharmaceutical may produce an unexpected side effect that was undiscovered at the R&D stage. If unforeseen side effects or serious adverse events occur, the use of a drug may be limited, or sales of the drug may be terminated completely.

5. Manufacturing and Procurement

Malfunctions with production equipment or the inability to procure raw materials in a timely fashion could delay or shut down drug manufacturing. In addition, a quality problem may cause a drug to be recalled, which would negatively impact Kissei's operating results and financial position.

6. Intellectual Property Risks

In the event that the Kissei Group is unable to appropriately protect its intellectual property, a third party may be able to use the Kissei Group's technology, which would undermine its competitive superiority in the market.

7. Legal Risks

At present, there are no outstanding legal problems affecting the Kissei Group's management. There is the possibility, however, that in the course of its business activities, the Kissei Group could face lawsuits in the future both at home and abroad regarding patent, product liability, environment, and labor matters.

8. Environmental Conservation

Pharmaceutical chemical substances used in research and manufacturing processing could have an impact on the environment. Every department and work site in the Kissei Group is working diligently to follow stringent substance management rules and protect the environment. However, if chemical substances were found to have polluted areas around a work site, legal action may be taken against the work site, and Kissei may be faced with large costs to restore the environment, which would negatively impact Kissei's operating results and financial position.

9. Information Management

The Kissei Group is paying close attention to the need to protect information by establishing strict rules for the management of personal and confidential information as well as providing education on this issue to employees. However, if an unexpected incident occurred in which information was improperly disclosed, the Kissei Group's image may be tarnished, which would negatively impact Kissei's operating results and financial position.

Besides the risk factors mentioned above, there are various other risks faced by the Kissei Group.

Consolidated Balance Sheets

Kissei Pharmaceutical Co., Ltd. and its subsidiaries
At March 31, 2013 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 3)
Assets	2014	2013	2014
Current Assets:			
Cash on hand and in banks (Notes 4 and 5)	¥ 31,267	¥ 23,937	$ 303,563
Notes and accounts receivable (Note 5)	23,712	25,005	230,214
Marketable securities (Notes 4, 5 and 6)	27,049	27,344	262,612
Inventories (Note 7)	12,813	11,124	124,398
Deferred tax assets—current (Note 9)	2,355	2,030	22,864
Other current assets	3,701	2,826	35,932
Allowance for doubtful accounts	(2)	(3)	(19)
Total current assets	100,895	92,263	979,564
Property, Plant and Equipment:			
Buildings and structures (Note 13)	38,481	36,882	373,602
Less: accumulated depreciation	(26,938)	(26,272)	(261,534)
Buildings and structures, net	11,543	10,610	112,068
Land (Note 13)	13,070	13,191	126,893
Construction in progress	—	553	—
Other	14,815	14,396	143,835
Less: accumulated depreciation	(12,467)	(12,222)	(121,039)
Other, net	2,348	2,174	22,796
Total property, plant and equipment	26,961	26,528	261,757
Intangible Assets:			
Software for internal use	646	761	6,272
Other	46	57	447
Total intangible assets	692	818	6,719
Investments and Other Assets:			
Investments in securities (Notes 5 and 6)	41,669	38,091	404,553
Long-term loans receivable	137	123	1,330
Long-term prepaid expenses	585	669	5,680
Deferred tax assets—non-current (Note 9)	566	423	5,495
Other	1,198	1,163	11,631
Allowance for doubtful accounts	(53)	(49)	(515)
Total investments and other assets	44,102	40,420	428,174
Total assets	¥172,650	¥160,028	$1,676,214

The accompanying notes are an integral part of these statements.

Liabilities and Net Assets	Millions of yen 2014	2013	Thousands of U.S. dollars (Note 3) 2014
Current Liabilities:			
Notes and accounts payable	¥ 5,390	¥ 4,882	$52,330
Short-term bank loans (Note 8)	1,760	1,880	17,087
Current portion of long-term debt (Note 8)	112	122	1,087
Income taxes payable (Note 9)	3,231	1,992	31,369
Accrued bonuses to employees	2,620	2,153	25,437
Accrued bonuses to directors and corporate auditors	30	23	291
Reserve for sales returns	13	14	126
Reserve for sales rebates	350	364	3,398
Reserve for sales promotion expenses	166	179	1,612
Other current liabilities	4,208	3,968	40,854
Total current liabilities	17,880	15,577	173,591
Long-Term Liabilities:			
Long-term debt (Note 8)	1,409	1,525	13,680
Deferred tax liabilities—non-current (Note 9)	3,817	3,101	37,058
Accrued retirement benefits to employees (Note 10)	—	4,199	—
Net defined benefit liability (Note 10)	5,797	—	56,282
Accrued retirement benefits to directors and corporate auditors	132	120	1,282
Asset retirement obligations	106	102	1,029
Other long-term liabilities	688	620	6,680
Total long-term liabilities	11,949	9,667	116,011
Total liabilities	29,829	25,244	289,602
Contingent Liabilities (Note 12)			
Net Assets:			
Shareholders' equity:			
Common stock:			
Authorized: 227,000,000 shares			
Issued: 56,911,185 shares and 56,911,185 shares at March 31, 2013 and 2014, respectively	24,357	24,357	236,476
Additional paid-in capital	24,254	24,254	235,476
Retained earnings	90,918	83,832	882,699
Treasury stock (5,439,210 shares and 5,440,603 shares at March 31, 2013 and 2014, respectively)	(8,685)	(8,682)	(84,320)
Total shareholders' equity	130,844	123,761	1,270,330
Accumulated other comprehensive income:			
Unrealized holding gains on securities	12,724	10,798	123,534
Retirement benefits liability adjustments	(978)	—	(9,495)
Total accumulated other comprehensive income	11,746	10,798	114,039
Minority interests in consolidated subsidiaries	231	225	2,243
Total net assets	142,821	134,784	1,386,612
Total liabilities and net assets	¥172,650	¥160,028	$1,676,214

Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Kissei Pharmaceutical Co., Ltd. and its subsidiaries
For the years ended March 31, 2013 and 2014

Consolidated Statements of Income

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2014	2013	**2014**
Net Sales	¥70,399	¥62,491	$683,485
Cost of Sales	23,181	21,143	225,058
Gross profit	47,218	41,348	458,427
Selling, General and Administrative Expenses (Note 16)	34,917	33,587	339,000
Operating income	12,301	7,761	119,427
Other Income (Expenses):			
Interest and dividend income	858	698	8,330
Interest expense	(37)	(40)	(359)
Gain (loss) on sales of investment securities	(21)	—	(204)
Loss on sales or disposal of properties	(79)	(20)	(767)
Income (loss) from investments in partnerships	151	56	1,466
Gain on sales of property, plant and equipment	46	1	447
Gain on valuation of securities	235	240	2,282
Loss on devaluation of investments in securities	—	(837)	—
Impairment loss	(87)	(1)	(845)
Other, net	34	135	330
	1,100	232	10,680
Income before income taxes and minority interests	13,401	7,993	130,107
Income Taxes (Note 9):			
Current	4,510	3,127	43,786
Deferred	(226)	(177)	(2,194)
	4,284	2,950	41,592
Income before Minority Interests	9,117	5,043	88,515
Minority Interests	(24)	(23)	(233)
Net Income	¥ 9,093	¥ 5,020	$ 88,282

	Yen		U.S. dollars (Note 3)
Per Share:			
Net income:			
Primary	¥176.67	¥97.5	$1.715
Fully-diluted	—	—	—
Cash dividends	40.0	38.0	0.388

The accompanying notes are an integral part of these statements.

Consolidated Statements of Comprehensive Income

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2014	2013	**2014**
Income before Minority Interests	¥ 9,117	¥ 5,043	$ 88,515
Other Comprehensive Income			
Unrealized holding gains on securities	1,926	8,262	18,699
Total other comprehensive income (Note 11)	1,926	8,262	18,699
Comprehensive Income	¥11,043	¥13,305	$107,214
Comprehensive income attributable to:			
Shareholders of Kissei Pharmaceutical Co., Ltd.	¥11,019	¥13,282	$106,981
Minority interests	24	23	233

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Net Assets

Kissei Pharmaceutical Co., Ltd. and its subsidiaries
For the years ended March 31, 2013 and 2014

	Millions of yen								
		Shareholders' equity				Accumulated other comprehensive income			
	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Unrealized holding gains on securities	Remeasurements of defined benefit plans	Minority interests in consolidated subsidiaries	Total net assets
Balance at April 1, 2012	56,911,185	¥24,357	¥24,254	¥80,717	¥(8,680)	¥ 2,536	¥ —	¥202	¥123,386
Net income for the year	—	—	—	5,020	—	—	—	—	5,020
Cash dividends paid	—	—	—	(1,905)	—	—	—	—	(1,905)
Treasury stock purchased (1,007 shares)	—	—	—	—	(2)	—	—	—	(2)
Unrealized holding gains on securities	—	—	—	—	—	8,262	—	—	8,262
Increase in minority interests	—	—	—	—	—	—	—	23	23
Balance at April 1, 2013	56,911,185	¥24,357	¥24,254	¥83,832	¥(8,682)	¥10,798	¥ —	¥225	¥134,784
Net income for the year	—	—	—	9,093	—	—	—	—	9,093
Cash dividends paid	—	—	—	(2,007)	—	—	—	—	(2,007)
Treasury stock purchased (1,515 shares)	—	—	—	—	(3)	—	—	—	(3)
Unrealized holding gains on securities	—	—	—	—	—	1,926	—	—	1,926
Retirement benefits liability adjustments	—	—	—	—	—	—	(978)	—	(978)
Gain on sale of treasury stock (122 shares)	—	—	0	—	0	—	—	—	0
Increase in minority interests	—	—	—	—	—	—	—	6	6
Balance at March 31, 2014	56,911,185	¥24,357	¥24,254	¥90,918	¥(8,685)	¥12,724	¥(978)	¥231	¥142,821

	Thousands of U.S. dollars (Note 3)								
		Shareholders' equity				Accumulated other comprehensive income			
	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Unrealized holding gains on securities	Remeasurements of defined benefit plans	Minority interests in consolidated subsidiaries	Total net assets
Balance at April 1, 2013	56,911,185	$236,476	$235,476	$813,902	$(84,291)	$104,835	$ —	$2,185	$1,308,583
Net income for the year	—	—	—	88,282	—	—	—	—	88,282
Cash dividends paid	—	—	—	(19,485)	—	—	—	—	(19,485)
Treasury stock purchased (1,515 shares)	—	—	—	—	(29)	—	—	—	(29)
Unrealized holding gains on securities	—	—	—	—	—	18,699	—	—	18,699
Retirement benefits liability adjustments	—	—	—	—	—	—	(9,495)	—	(9,495)
Gain on sale of treasury stock (122 shares)	—	—	0	—	0	—	—	—	0
Increase in minority interests	—	—	—	—	—	—	—	58	58
Balance at March 31, 2014	56,911,185	$236,476	$235,476	$882,699	$(84,320)	$123,534	$(9,495)	$2,243	$1,386,612

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

Kissei Pharmaceutical Co., Ltd. and its subsidiaries
For the years ended March 31, 2013 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2014	2013	**2014**
Cash Flows from Operating Activities:			
Income before income taxes and minority interests	¥13,401	¥ 7,993	$130,107
Depreciation and amortization	2,190	2,390	21,262
Increase (decrease) in allowance reserves	460	201	4,466
Increase (decrease) in net defined benefit liability	56	—	544
Impairment loss	87	1	845
Interest and dividend income	(858)	(698)	(8,330)
Interest expense	37	40	359
Foreign exchange (gain) loss	12	(4)	117
Loss (gain) on sales of securities	6	—	58
Gain on valuation of securities	(235)	(240)	(2,282)
Gain on sales of property, plant and equipment	(46)	(1)	(447)
Loss on devaluation of investments in securities	—	837	—
Loss (gain) on sales of investment securities	21	—	204
Loss on sale or disposal of properties	79	20	767
(Increase) decrease in notes and accounts receivable	1,294	1,054	12,563
(Increase) decrease in inventories	(1,689)	(1,160)	(16,398)
(Increase) decrease in other current assets	(625)	365	(6,068)
Increase (decrease) in notes and accounts payable	507	383	4,922
Increase (decrease) in other current liabilities	8	648	78
Decrease in other long-term liabilities	3	(57)	29
Other	(137)	(38)	(1,330)
Sub total	14,571	11,734	141,466
Receipt of interest and dividends	807	650	7,835
Payment of interest	(37)	(40)	(359)
Payment of income taxes	(3,395)	(3,057)	(32,961)
Net cash provided by operating activities	11,946	9,287	115,981
Cash Flows from Investing Activities:			
Time deposits received	198	86	1,922
Time deposits paid	(187)	(86)	(1,816)
Reduction of investments in specified trusts	43	41	417
Proceeds from sales of marketable securities	386	—	3,748
Purchase of marketable securities	(103)	—	(1,000)
Acquisition of property and equipment	(1,909)	(1,630)	(18,534)
Proceeds from sales of property and equipment	72	1	699
Acquisition of intangible assets	(199)	(254)	(1,932)
Acquisition of investments in securities	(1,946)	(411)	(18,893)
Proceeds from sales of investments in securities	1,426	220	13,845
Payments for loans	(135)	(108)	(1,311)
Collection of loans	125	130	1,214
Long-term advance payment costs	(24)	(54)	(233)
Other	(62)	(11)	(602)
Net cash used in investing activities	(2,315)	(2,076)	(22,476)
Cash Flows from Financing Activities:			
Short-term bank loans received	230	—	2,233
Repayment of short-term bank loans	(350)	—	(3,398)
Long-term debt received	—	100	—
Repayment of long-term debt	(127)	(221)	(1,233)
Repayment of finance lease obligation	(48)	(10)	(466)
Cash dividends paid by Kissei	(2,007)	(1,905)	(19,485)
Treasury stock purchased	(3)	(2)	(29)
Treasury stock sale	0	—	0
Net cash used in financing activities	(2,305)	(2,038)	(22,378)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(12)	4	(117)
Increase (Decrease) in Cash and Cash Equivalents	7,314	5,177	71,010
Cash and Cash Equivalents at Beginning of Year (Note 4)	50,951	45,774	494,670
Cash and Cash Equivalents at End of Year (Note 4)	¥58,265	¥50,951	$565,680

The accompanying notes are an integral part of these statements.

Notes to the Consolidated Financial Statements

Kissei Pharmaceutical Co., Ltd. and its subsidiaries

Note 1
Basis of Presenting the Consolidated Financial Statements

The accompanying consolidated financial statements of Kissei Pharmaceutical Co., Ltd. (the Company) and its subsidiaries (the Companies) are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan.

Note 2
Summary of Significant Accounting Policies

(1) Scope of Consolidation

The numbers of subsidiaries the Company had for the years ended March 31, 2013 and 2014 were six, respectively, of which three were consolidated in the respective years. The subsidiaries which have been consolidated with the Company are listed below:

Name of subsidiaries	% of voting rights owned	Paid-in capital, millions of yen
Kissei Shoji Co., Ltd.	100%	¥ 50
Kissei Comtec Co., Ltd.	84%	¥334
Hashiba Technos Co., Ltd.	100%	¥ 45

(2) Consolidation and Elimination

In preparing the accompanying consolidated financial statements, all significant intercompany transactions, account balances and unrealized profits between the Companies have been eliminated, and the portion thereof attributable to minority interests is charged to minority interests.

In eliminating investments in the common stock of the consolidated subsidiaries against the underlying equity in the net assets of the subsidiaries, differences between the cost of the investments and the underlying equity in net assets were not recognized for the two years ended March 31, 2014.

(3) Investments in Unconsolidated Subsidiaries

Investments in unconsolidated subsidiaries are carried at cost, cost being determined by the moving average method, as there would be no significant effect on consolidated net income if they were accounted for by the equity method.

(4) Valuation of Securities

Held-to-maturity debt securities are carried at amortized cost.

Marketable securities classified as other securities are carried at fair value as of the balance sheet date with changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. The cost of securities sold is primarily determined by the moving average method.

Non-marketable securities classified as other securities are stated at cost primarily determined by the moving average method.

Short-term investments in specified trusts are stated at market value.

(5) Inventory Valuation

Inventories are mainly valued at cost using the gross average method (the amount on the balance sheet is reduced to reflect decreased profitability).

(6) Method of Depreciation of Significant Depreciable Assets

(i) Property, plant and equipment (excluding lease assets)

Depreciation is computed on the declining-balance method at rates based on the estimated useful lives of the assets. The range of useful lives is principally from 3 to 50 years for buildings and structures.

Depreciation for buildings (excluding leasehold improvements and auxiliary facilities attached to buildings) acquired on or after April 1, 1998 is computed on the straight-line method.

(ii) Intangible assets (excluding lease assets)

Depreciation is computed on the straight-line method.

Software costs for internal use are amortized over their expected useful lives (mainly 5 years) on a straight-line basis.

(iii) Lease assets

Lease assets are depreciated by the straight-line method with the respective lease period and the residual value being zero.

(7) Accounting for Consumption Tax

Consumption tax is imposed at the flat rate of 5% on all domestic consumption of goods and services (with certain exemptions).

Consumption tax withheld upon sale and consumption tax paid by the Companies on their purchases of goods and services are not included in the respective revenue and cost or expenses in the accompanying consolidated statements of income.

(8) Foreign Currency Translation

Receivables and payables denominated in foreign currencies are translated at the current exchange rate prevailing on the respective balance sheet dates and the resulting exchange gains or losses are recognized in the determination of net income for the relevant period.

Investments in unconsolidated subsidiaries denominated in foreign currencies are translated at the historical exchange rates prevailing at the time such transactions were made.

(9) Income Taxes

Income taxes of the Companies consist of corporate income tax, local inhabitants taxes and enterprise tax.

The asset and liability approach is used to recognize deferred tax assets and liabilities in respect of temporary differences between the carrying amounts and the basis of assets and liabilities.

(10) Allowances, Accrued Bonuses to Employees and Reserves for Certain Expenses

(i) Allowance for doubtful accounts

The Companies provide an “Allowance for doubtful accounts” based on the percentage of their historical bad debt loss incurred against the balance of total receivables in addition to the amount of uncollectable receivables estimated on an individual basis.

(ii) Accrued bonuses to employees

“Accrued bonuses to employees” is provided for based on estimated amounts which the Companies should pay to employees in summer, for their services rendered during the six-month period ended on the balance sheet date.

(iii) Accrued bonuses to directors and corporate auditors

“Accrued bonuses to directors and corporate auditors” is provided for based on estimated payments for their performance during the fiscal year ended March 31.

(iv) Reserve for sales returns
"Reserve for sales returns" is estimated based on the percentage of the Companies' own actual return history against sales.
(v) Reserve for sales rebates
"Reserve for sales rebates" is provided for in an amount equivalent to the expected amount payable by the Companies to dealers in respect of the balance of accounts receivable at the balance sheet date. In estimating the amount of rebates, the Companies adopt current applicable rebate rates allowed in the six-month period preceding the balance sheet date.

(11) Accounting Method for Retirement Benefits

Accrued retirement benefits and prepaid pension cost for employees have been recorded mainly at the amount calculated based on the retirement benefit obligation and the fair value of the plan assets as of balance sheet date.
(i) Allocation of expected benefit payments
When calculating retirement benefit obligation, the straight-line method is used to allocate expected benefit payments to the period until the fiscal year-end.
(ii) Actuarial differences and prior service cost
Prior service cost is amortized through the straight-line method over a term that does not exceed the average remaining service period of employees who are expected to receive benefits under the plans (10 years). Net actuarial gains or losses are amortized from the following year through the straight-line method over a term that does not exceed the average remaining service period of employees who are expected to receive benefits under the plans (10 years).

(12) Net Income and Dividends per Share

Net income per share of common stock is based upon the weighted average number of shares of common stock outstanding during each fiscal year.

Cash dividends per share shown for each year in the accompanying consolidated statements of income represent dividends approved or declared as applicable to the respective years.

(13) Reclassification of Accounts

Prior years' amounts have been reclassified to conform with the current year's presentation.

(14) Research and Development Expenses

Research and development expenses are recognized as an expense when incurred in accordance with the Japanese accounting standards.

(15) Accounting Changes

"Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, issued on May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, issued on May 17, 2012) were adopted effective March 31, 2014 (with the exception of the standards prescribed by Article 35 of "Accounting Standard for Retirement Benefits" and Article 67 of "Guidance on Accounting Standard for Retirement Benefits"). In accordance with these standards, the Company recorded an amount equivalent to retirement benefit obligation less plan assets as net defined benefit liability. Unrecognized actuarial gains and losses and unrecognized prior service cost are recorded under net defined benefit liability.

In accordance with the provision for transitional treatment stated in paragraph 37 of the "Accounting Standard for Retirement Benefits," the value of remeasurements of defined benefit plans under accumulated other comprehensive income has been decreased to reflect the impact of this accounting change.

As a result, net defined benefit liability of ¥5,796 million was recognized on March 31, 2014, and total accumulated other comprehensive income was reduced by ¥978 million and minority interests in consolidated subsidiaries was reduced by ¥17 million. Impacts on per share figures will be described in the relevant section.

(16) Standard Issued but Not Yet Effective

"Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, issued on May 17, 2012)
"Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, issued on May 17, 2012)
(i) Outline
From the perspective of improving financial reporting and in consideration of international trends, the accounting standard and the guidance have been issued for the amendment of the accounting treatment for unrecognized actuarial gains and losses and unrecognized prior service cost, the calculation method for projected retirement benefit obligation and service cost, and the enhancement of disclosure.
(ii) Application schedule
The revised calculation method for projected retirement benefit obligation and service cost will be applied from April 1, 2015. Moreover, in accordance with the provision for transitional treatment, it will not be retroactively applied to past consolidated financial statements.
(iii) Effect of adoption of accounting standards
The effect on consolidated financial statements of adopting the revised calculation method for projected retirement benefit obligation and service cost is currently being measured.

Note 3
United States Dollar Amounts

The accompanying consolidated financial statements are expressed in yen, and solely for the convenience of the reader, have been translated into U.S. dollars at the rate of ¥103=U.S.$1, the approximate rate of exchange prevailing at March 31, 2014. This translation should not be construed as a representation that all amounts shown could be converted into U.S. dollars at such a rate.

Note 4
Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2013 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Cash on hand and in banks	**¥31,267**	¥23,937	**$303,563**
Marketable securities	**27,049**	27,344	**262,612**
Time deposits with original maturities of over three months	**(51)**	(61)	**(495)**
Marketable securities with maturities of over three months	**—**	(269)	**—**
Cash and cash equivalents	**¥58,265**	¥50,951	**$565,680**

Note 5
Financial Instruments

Overview

(1) Policy for financial instruments

The Companies manage temporary cash surpluses through low-risk financial assets. Further, the Companies raise short-term capital through bank borrowings. The Companies use derivatives for the purpose of reducing risk arising from fluctuations in foreign currency exchange rates and do not enter into derivatives for speculative or trading purposes.

(2) Types of financial instruments and related risk

Trade receivables—notes and accounts receivable—are exposed to credit risk in relation to customers. In accordance with the internal policies for managing credit risk of the Companies arising from receivables, each related division monitors credit worthiness of their main customers periodically, and monitors due dates and outstanding balances by individual customer.

Marketable securities and investments in securities are exposed to market risk. Those securities are composed of mainly the shares of common stock of other companies with which the Companies have business relationships. The market value of these securities is periodically reported to the Board of Directors.

(3) Supplementary explanation of the estimated fair value of financial instruments

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in a different fair value.

Estimated Fair Value of Financial Instruments

Carrying value of financial instruments on the consolidated balance sheets as of March 31, 2013 and 2014 and unrealized gains (losses) are shown in the following tables. The following does not include financial instruments for which it is extremely difficult to determine the fair value. (Please refer to *2 below.)

	Millions of yen		
As of March 31, 2014	Carrying value	Estimated fair value	Unrealized gains (losses)
Assets			
Cash on hand and in banks	**¥ 31,267**	**¥ 31,267**	**¥—**
Notes and accounts receivable	**23,712**	**23,712**	**—**
Marketable securities and investments in securities	**66,295**	**66,295**	**—**
Total	**¥121,274**	**¥121,274**	**¥—**
Derivatives	**¥ —**	**¥ —**	**¥—**

	Millions of yen		
As of March 31, 2013	Carrying value	Estimated fair value	Unrealized gains (losses)
Assets			
Cash on hand and in banks	¥ 23,937	¥ 23,937	¥—
Notes and accounts receivable	25,005	25,005	—
Marketable securities and investments in securities	63,276	63,276	—
Total	¥112,218	¥112,218	¥—
Derivatives	¥ —	¥ —	¥—

As of March 31, 2014	Thousands of U.S. dollars		
	Carrying value	Estimated fair value	Unrealized gains (losses)
Assets			
Cash on hand and in banks	$ 303,563	$ 303,563	$—
Notes and accounts receivable	230,214	230,214	—
Marketable securities and investments in securities	643,641	643,641	—
Total	$1,177,418	$1,177,418	$—
Derivatives	$ —	$ —	$—

*1: Methods to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions

Cash on hand and in banks and notes and accounts receivable

Since these items are settled in a short period of time, their carrying value approximates fair value.

Marketable securities and investments in securities

The fair value of stocks is based on quoted market prices. For information on securities classified by holding purpose, please refer to Note 6 Securities.

*2: Financial instruments for which it is extremely difficult to determine the fair value are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Unlisted stocks	¥1,454	¥967	$14,117
Investments in partnerships	328	552	3,184
Investments in unconsolidated subsidiaries	641	641	6,223

Because no quoted market price is available and it is extremely difficult to determine the fair value, the above financial instruments are not included in "Marketable securities and investments in securities".

*3: Redemption schedule for receivables and marketable securities with maturities at March 31, 2013 and 2014 are as follows:

As of March 31, 2014	Millions of yen			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Assets				
Cash on hand and in banks	¥31,267	¥ —	¥ —	¥—
Notes and accounts receivable	23,712	—	—	—
Marketable securities and investments in securities	27,049	602	1,391	—
Total	¥82,028	¥602	¥1,391	¥—

As of March 31, 2013	Millions of yen			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Assets				
Cash on hand and in banks	¥23,937	¥ —	¥ —	¥—
Notes and accounts receivable	25,005	—	—	—
Marketable securities and investments in securities	27,366	348	1,404	—
Total	¥76,308	¥348	¥1,404	¥—

As of March 31, 2014	Thousands of U.S. dollars			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Assets				
Cash on hand and in banks	$303,563	$ —	$ —	$—
Notes and accounts receivable	230,214	—	—	—
Marketable securities and investments in securities	262,612	5,845	13,505	—
Total	$796,389	$5,845	$13,505	$—

Note 6
Securities

The acquisition cost, carrying amount, and gross unrealized holding gains and losses for securities with fair value by security type at March 31, 2013 and 2014 are as follows:

	Millions of yen			
	2014			
	Acquisition cost	Carrying amount	Gross unrealized holding gains	Gross unrealized holding losses
Equity securities	¥17,285	¥36,411	¥19,168	¥42
Corporate debt securities	700	713	13	—
Other	29,047	29,171	137	13
Total	¥47,032	¥66,295	¥19,318	¥55

	Millions of yen			
	2013			
	Acquisition cost	Carrying amount	Gross unrealized holding gains	Gross unrealized holding losses
Equity securities	¥17,287	¥33,448	¥16,374	¥213
Corporate debt securities	1,000	1,001	6	5
Other	28,705	28,826	160	39
Total	¥46,992	¥63,275	¥16,540	¥257

	Thousands of U.S. dollars			
	2014			
	Acquisition cost	Carrying amount	Gross unrealized holding gains	Gross unrealized holding losses
Equity securities	$167,816	$353,505	$186,097	$408
Corporate debt securities	6,796	6,922	126	—
Other	282,010	283,214	1,330	126
Total	$456,622	$643,641	$187,553	$534

Sales of securities classified as other securities and the gross realized gains and losses for the years ended March 31, 2013 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Sales proceeds	¥463	¥34	$4,495
Gross realized gains	1	—	10
Gross realized losses	28	—	272

Note 7
Inventories

Inventories at March 31, 2013 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Merchandise	¥ 1,222	¥ 1,327	$ 11,864
Finished goods	2,925	2,748	28,398
Work-in-process	1,860	1,478	18,058
Raw materials	6,645	5,372	64,515
Supplies	161	199	1,563
Total	¥12,813	¥11,124	$124,398

Note 8
Short-Term Bank Loans and Long-Term Debt

Short-term bank loans outstanding at March 31, 2013 and 2014 represent one-year notes issued by the Companies to banks. Short-term bank loans made during the years ended March 31, 2013 and 2014 bore interest at an average annual rate of 1.15% and 1.13%, respectively.

Long-term debt of the Companies at March 31, 2013 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Non-secured loans with financial institutions, bearing interest at rates ranging from 0.00% to 3.72% due from 2013 to 2019	¥1,521	¥1,647	$14,767
Less: current maturities due within one year	(112)	(122)	(1,087)
Total	¥1,409	¥1,525	$13,680

The aggregate annual maturities of long-term debt outstanding at March 31, 2014 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2016	¥ 41	$ 398
2017	41	398
2018	26	253
2019 and thereafter	1,301	12,631
Total	¥1,409	$13,680

Note 9
Income Taxes

Deferred tax assets (both current and non-current) at March 31, 2013 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Deferred tax assets:			
Net defined benefit liability	¥ 2,052	¥ —	$ 19,922
Accrued retirement benefits to employees	—	1,526	—
Prepaid research and development expenses	1,155	1,141	11,214
Accrued bonuses to employees	928	812	9,010
Write-down of securities	706	705	6,854
Inventory assets	453	486	4,398
Payment of retirement benefits to directors and corporate auditors	206	204	2,000
Impairment loss	206	179	2,000
Accrued enterprise tax	297	172	2,883
Reserve for sales rebates	124	137	1,204
Other	943	913	9,156
Total gross deferred tax assets	7,070	6,275	68,641
Valuation allowance	(1,297)	(1,266)	(12,592)
Total deferred tax assets	¥ 5,773	¥ 5,009	$ 56,049
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	¥(6,651)	¥(5,634)	$(64,573)
Other	(18)	(22)	(175)
Total deferred tax liabilities	(6,669)	(5,656)	(64,748)
Deferred tax assets (liabilities), net	¥ (896)	¥ (647)	$ (8,699)

Reconciliation of the actual tax rate for the years ended March 31, 2013 and 2014 are as follows:

	2014	2013
Effective statutory tax rate	37.7%	37.7%
Adjustments:		
Entertainment expenses and other non-deductibles	1.3	2.1
Dividend income not taxable	(1.0)	(1.4)
Tax benefits due to research and development expenses	(8.9)	(6.5)
Per capital levy of local inhabitants taxes	(0.6)	1.0
Valuation allowance	(0.2)	3.7
Tax effect from change in tax rate by tax reform, etc.	(1.2)	—
Other	(0.9)	1.0
Actual tax rate	32.0%	37.6%

The "Act for Partial Amendment of the Income Tax Act, etc." (Act No.10 of 2014) was promulgated on March 31, 2014 and, as a result, the Companies are no longer subject to the Special Reconstruction Corporation Tax effective for fiscal years beginning on or after April 1, 2014. In addition, the "Act for Partial Amendment of the Local Tax Act, etc." (Act No.4 of 2014) and the "Act for Partial Amendment of the Local Corporate Tax Act, etc." (Act No.11 of 2014) were promulgated on March 31, 2014, and the Companies are subject to the amended Local Corporate Tax effective for fiscal years beginning on or after April 1, 2015.

As a result, the effective statutory tax rate used to measure the Companies' deferred tax assets and liabilities was changed from 37.7% to 35.4% for the temporary differences expected to be realized or settled from fiscal years beginning April 1, 2014. The effect of the announced reduction of the effective statutory tax rate was to decrease deferred tax liabilities after offsetting deferred tax assets by ¥896 million (U.S.$8,699 thousand) and increase deferred income taxes by ¥163 million (U.S.$1,583 thousand) as of and for the year ended March 31, 2014.

Note 10
Funded Defined Benefit Plans

General outline of the funded defined benefit plans implemented

Employees of the Companies are, under most circumstances, entitled to receive either a lump-sum payment, a pension or a combination thereof, at amounts which are determined by reference to current basic rates of pay, length of service and conditions under which the terminations occur.

The discount rate used to determine the actuarial present value of projected benefit obligations under the plan that covers the employees of the Companies was 1.8% as of March 31, 2013 and 2014. The rate of expected return on plan assets was 2.5% as of March 31, 2013 and 2014.

Reconciliation of projected benefit obligations, plan assets, funded status of the retirement benefit plans, and net liability recognized are as follows:

For the year ended March 31, 2014

(i) Reconciliation of defined benefit obligation at beginning and end of period

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Defined benefit obligation at beginning of period	¥17,246	$167,437
Service cost	825	8,010
Interest cost	309	3,000
Actuarial gains and losses incurred this period	508	4,932
Retirement benefits paid	(541)	(5,252)
Defined benefit obligation at end of period	¥18,347	$178,127

(ii) Reconciliation of balance of plan assets at beginning and end of period

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Plan assets at beginning of period	¥11,355	$110,243
Expected return on plan assets	283	2,747
Actuarial gains and losses incurred this period	594	5,767
Employer contribution	777	7,544
Retirement benefits paid	(459)	(4,456)
Plan assets at end of period	¥12,550	$121,845

(iii) Reconciliation of defined benefit obligation and plan assets with net defined benefit liability and asset reflected on the consolidated balance sheets

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Defined benefit obligation for funded plan	¥ 18,347	$178,127
Plan assets	(12,550)	(121,845)
Net amount of defined benefit liability and asset on the consolidated balance sheets	5,797	56,282
Defined benefit liability	5,797	56,282
Net amount of defined benefit liability and asset on the consolidated balance sheets	¥ 5,797	$56,282

(iv) Components of net periodic benefit cost

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Service cost	¥ 825	$8,010
Interest cost	309	3,000
Expected return on plan assets	(283)	(2,747)
Amortization of actuarial gains and losses	359	3,485
Amortization of prior service cost	(296)	(2,874)
Other	72	699
Net periodic benefit cost of defined benefit plan	¥ 986	$9,573

(v) Unrecognized prior service cost and unrecognized actuarial loss included in accumulated other comprehensive income (before tax effect)

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Unrecognized prior service cost	¥ (540)	$ (5,243)
Unrecognized actuarial gains and losses	2,082	20,214
Total	¥1,542	$14,971

(vi) Plan asset information

Breakdown of plan assets

Ratio of each component of plan assets to the amount of total pension assets

Debt securities	18%
Equity securities	29%
General accounts	52%
Other	1%
Total	100%

The expected return on assets has been estimated based on the anticipated allocation to each asset class and the expected long-term returns on assets held in each category.

For the year ended March 31, 2013

(i) Reconciliation of projected benefit obligations, plan assets, funded status of the retirement benefit plans, and net liability recognized are as follows:

	Millions of yen
	2013
Projected benefit obligations	¥(17,247)
Fair value of plan assets	11,356
Funded status of the plans	(5,891)
Unrecognized net actuarial difference	2,529
Unamortized prior service cost	(837)
Net liability recognized	¥ (4,199)

(ii) The net periodic retirement benefit cost included the following:

	Millions of yen
	2013
Retirement benefit cost	¥1,116
(1) Service cost	818
(2) Interest cost	300
(3) Expected return on plan assets	(253)
(4) Amortization of difference caused from actuarial calculation	498
(5) Amortization of prior service cost	(297)
(6) Additional payment of retirement costs	50

Note 11
Other Comprehensive Income

Amounts of recycling and income tax relating to other comprehensive income for the years ended March 31, 2013 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Unrealized holding gains on securities			
Amount recognized in the year under review	**¥ 2,900**	¥11,720	**$28,155**
Amount of recycling	**27**	837	**262**
Before income tax effect adjustment	**2,927**	12,557	**28,417**
Amount of income tax effect	**(1,001)**	(4,295)	**(9,718)**
Unrealized holding gains on securities	**1,926**	8,262	**18,699**
Total other comprehensive income	**¥ 1,926**	¥ 8,262	**$18,699**

Note 12
Contingent Liabilities

The Companies were contingently liable for guarantees in respect of loans borrowed by its unconsolidated subsidiaries for an amount of ¥21 million ($204 thousand) at March 31, 2014.

Note 13
Government Grants

For the year ended March 31, 2013 and 2014

Government grants of ¥798 million ($7,748 thousand) for buildings and ¥113 million ($1,097 thousand) for land are deducted in calculating the carrying amounts of these assets.

Note 14
Segment Information

(1) Overview of Business Segments

The business segments of the Companies are components for which discrete financial information is available and whose operating results are regularly reviewed by the Board of Directors to make decisions about resource allocation and to assess their performance.

As the Companies' primary business is the pharmaceutical business, its one business segment is the ethical pharmaceuticals segment.

(2) Method of Calculating Sales and Profit (Loss), Identifiable Assets / Liabilities and Other Items by Business Segment

The accounting procedure for business segments reported is the same as that described in Note 2 Summary of Significant Accounting Policies.

Profit by business segment reported is calculated based on operating income.

Intersegment sales are recognized based on the price in an arm's-length transaction.

(3) Information on Sales and Profit (Loss), Identifiable Assets / Liabilities and Other Items by Business Segment

	Millions of yen			
	Business segment			
As of March 31, 2014	Ethical pharmaceuticals	Total	Other*	Total
Net sales				
Sales to third parties	¥ 61,090	¥ 61,090	¥ 9,309	¥ 70,399
Intersegment sales and transfers	—	—	6,374	6,374
Total	¥ 61,090	¥ 61,090	¥15,683	¥ 76,773
Segment profit	¥ 11,649	¥ 11,649	¥ 723	¥ 12,372
Segment assets	¥164,500	¥164,500	¥10,532	¥175,032
Other items				
Depreciation	¥ 1,963	¥ 1,963	¥ 338	¥ 2,301
Increase of property, plant and equipment and intangible assets	2,516	2,516	340	2,856

* The Other segment is not a reporting segment; it includes sales of materials and other goods, information solution services, construction subcontracting, and facilities and equipment management.

	Millions of yen			
	Business segment			
As of March 31, 2013	Ethical pharmaceuticals	Total	Other*	Total
Net sales				
Sales to third parties	¥ 54,232	¥ 54,232	¥ 8,259	¥ 62,491
Intersegment sales and transfers	—	—	4,279	4,279
Total	¥ 54,232	¥ 54,232	¥12,538	¥ 66,770
Segment profit	¥ 7,237	¥ 7,237	¥ 480	¥ 7,717
Segment assets	¥153,148	¥153,148	¥ 9,766	¥162,914
Other items				
Depreciation	¥ 2,143	¥ 2,143	¥ 357	¥ 2,500
Increase of property, plant and equipment and intangible assets	1,980	1,980	390	2,370

* The Other segment is not a reporting segment; it includes sales of materials and other goods, information solution services, construction subcontracting, and facilities and equipment management.

	Thousands of U.S. dollars			
	Business segment			
As of March 31, 2014	Ethical pharmaceuticals	Total	Other*	Total
Net sales				
Sales to third parties	$ 593,106	$ 593,106	$ 90,379	$ 683,485
Intersegment sales and transfers	—	—	61,883	61,883
Total	$ 593,106	$ 593,106	$152,262	$ 745,368
Segment profit	$ 113,097	$ 113,097	$ 7,019	$ 120,117
Segment assets	$1,597,087	$1,597,087	$102,252	$1,699,339
Other items				
Depreciation	$ 19,058	$ 19,058	$ 3,282	$ 22,340
Increase of property, plant and equipment and intangible assets	24,427	24,427	3,301	27,728

* The Other segment is not a reporting segment; it includes sales of materials and other goods, information solution services, construction subcontracting, and facilities and equipment management.

(4) Reconciliation Items between Segment Information and the Consolidated Financial Statements

(i) Major items for adjustments

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Net sales			
Total of business segments	¥ 61,090	¥ 54,232	$ 593,106
Other business sales	15,683	12,538	152,262
Elimination of intersegment transactions	(6,374)	(4,279)	(61,883)
Reported on consolidated financial statements	¥ 70,399	¥ 62,491	$ 683,485
Segment profit			
Total of business segments	¥ 11,649	¥ 7,237	$ 113,097
Other business profit	723	480	7,019
Elimination of intersegment transactions	71	55	689
Adjustments to depreciable assets	(140)	(1)	(1,359)
Other adjustments	(2)	(10)	(19)
Reported on consolidated financial statements	¥ 12,301	¥ 7,761	$ 119,427
Segment assets			
Total of business segments	¥164,500	¥153,148	$1,597,087
Assets classified as "other"	10,532	9,766	102,252
Elimination of intersegment transactions	(2,382)	(2,886)	(23,125)
Reported on consolidated financial statements	¥172,650	¥160,028	$1,676,214

(ii) Other items for adjustments

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Depreciation			
Total of business segments	¥1,963	¥2,143	$19,058
Other segments	338	357	3,282
Adjustments	(111)	(110)	(1,078)
Reported on consolidated financial statements	¥2,190	¥2,390	$21,262
Increase of property, plant and equipment and intangible assets			
Total of business segments	¥2,516	¥1,980	$24,427
Other segments	340	390	3,301
Adjustments	(251)	(398)	(2,437)
Reported on consolidated financial statements	¥2,605	¥1,972	$25,291

Note 15
Related Party Transactions

For the year ended March 31, 2014

Transactions with executives, main individual stockholders, etc.

Category	Name of party	Location	Capital or investment amount (millions of yen)	Business/ Occupation	Ratio of voting rights holding (held) (%)	Relationship with related party	Details of transaction	Amount transaction (millions of yen)	Account	Outstanding amount at the end of the year (millions of yen)
Executives or relatives of executives	Tomonari Hashimoto	—	—	—	—	Relative of Director Kaname Hashimoto	Construction subcontracting	30	—	—

*1: The above amounts do not include consumption tax.

*2: Terms and conditions of the transaction and its policies: The above transaction is over the arm's-length price.

For the year ended March 31, 2013

No corresponding items

Note 16
Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended March 31, 2013 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Advertising and sales promotion expenses	¥ 3,889	¥ 3,716	$ 37,757
Payroll costs	9,775	9,406	94,903
Research and development expenses	11,299	10,312	109,699
Traveling expenses	1,813	1,819	17,602
Depreciation	673	781	6,534
Other	7,468	7,553	72,505
	¥34,917	¥33,587	$339,000

Building a better working world

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Independent Auditor's Report

The Board of Directors
Kissei Pharmaceutical Co., Ltd.

We have audited the accompanying consolidated financial statements of Kissei Pharmaceutical Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2014, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kissei Pharmaceutical Co., Ltd. and its consolidated subsidiaries as at March 31, 2014, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 3.

Ernst & Young ShinNihon LLC

June 27, 2014
Matsumoto, Japan

Board of Directors

As of June 27, 2014

Chairman and Chief Executive Officer:
Mutsuo Kanzawa

President and Chief Operating Officer:
Masaki Morozumi

Executive Vice President:
Masuo Akahane

Executive Managing Director:
Hiroe Sato

Managing Directors:
Masayuki Isaji
Keiji Fukushima

Directors:
Yoshio Furihata
Takuo Asakawa
Kaname Hashimoto
Yasuo Takehana
Kenji So
Hidetoshi Kanai
Tetsu Takayama
Shigetaka Shimizu (External)

Auditors:
Makoto Yonekubo
Sukio Adachi
Hiroshi Ueno (External)
Kando Nakagawa (External)

Corporate Data

As of June 27, 2014

Head Office:
19-48, Yoshino, Matsumoto City, Nagano 399-8710, Japan
Telephone: +81-263-25-9081

Tokyo Head Office:
8-9, Nihonbashi-Muromachi 1-chome, Chuo-ku,
Tokyo 103-0022, Japan
Telephone: +81-3-3279-2761

Tokyo Head Office (Koishikawa):
1-3, Koishikawa 3-chome, Bunkyo-ku, Tokyo 112-0002, Japan
Telephone: +81-3-5684-3530

Date of Establishment:
August 9, 1946

Capital:
¥24,357 million (As of March 31, 2014)

Number of Employees:
1,534 (Non-consolidated) (As of March 31, 2014)

Central Research Laboratories:
Azumino City, Nagano

Toxicological Laboratories:
Azumino City, Nagano

Joetsu Chemical Laboratories:
Joetsu City, Niigata

Pharmaceutical Laboratories:
Azumino City, Nagano

Plants:
Matsumoto City, Shiojiri City

Distribution Center:
Shiojiri City

Information Center:
Matsumoto City

Nutritional Business Center:
Shiojiri City

Branches:
Sapporo, Sendai, Kan-etsu, Tokyo, Yokohama, Matsumoto, Nagoya, Kyoto, Osaka, Takamatsu, Hiroshima, Fukuoka

Offices:
Hakodate, Asahikawa, Kushiro, Yamagata, Morioka, Akita, Aomori, Koriyama-first / second, Saitama-third / fourth, Takasaki, Utsunomiya, Mito, Tsukuba, Niigata-first / second, Jonan, Tama-first / second, Chiba-first / second, Matsudo, Atsugi-first / second, Yamanashi, Okazaki, Gifu, Mie, Shizuoka, Hamamatsu, Shiga, Kanazawa, Toyama, Kita Osaka, Nara, Sakai, Wakayama, Kobe-first / second, Himeji, Takamatsu-third, Fukuyama, Yamaguchi, Okayama, Yonago, Kitakyushu, Oita, Nagasaki, Kumamoto, Kagoshima, Miyazaki, Okinawa

Subsidiaries:
Consolidated Subsidiaries
Kissei Shoji Co., Ltd.
Kissei Comtec Co., Ltd.
Hashiba Technos Co., Ltd.

Non-consolidated Subsidiaries
Kissei America, Inc.
Mitsui Kanko Co., Ltd.
Planet Computer Technology (BeiJing) Co., Ltd.

Investor Information

As of March 31, 2014

Common Stock:

Authorized: 227,000,000 shares

Issued: 56,911,185 shares

Number of Shareholders:

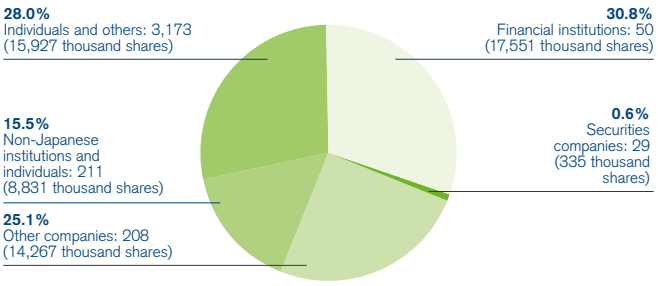
3,671 (Year-on-year change: 339 decrease)

Principal Shareholders:

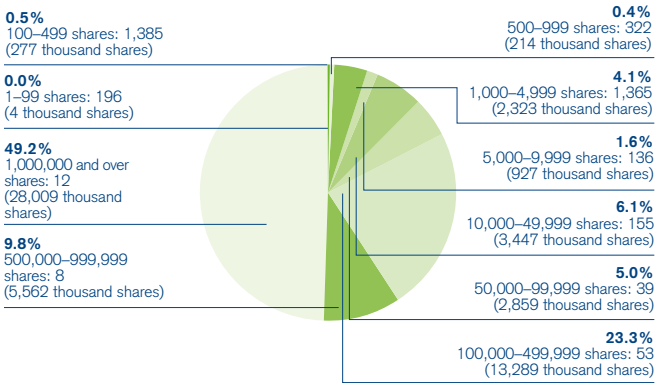
	Number of shares held (Hundreds)	Voting rights (%)
The Dai-ichi Life Insurance Company, Limited	32,000	6.2
Kanzawa Limited	31,782	6.2
Kunio Kanzawa	27,030	5.3
The Hachijuni Bank, Ltd.	25,703	5.0
Mizuho Bank, Ltd.	25,702	5.0
Japan Trustee Services Bank, Ltd. (Trust account)	20,017	3.9
Mutsuo Kanzawa	15,284	3.0
Kissei Group Employee Stockholders Committee	13,125	2.6
Nabelin Co., Ltd.	12,223	2.4
The Master Trust Bank of Japan, Ltd. (Trust account)	11,552	2.2

*1: Kissei holds 54,406 hundred shares of treasury stock but is not included in the above list of major shareholders. Further, the calculation of voting rights percentages is based on total shares issued net of treasury stock.

Composition of Shareholders:
By Category



By Number of Shares Held



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